

REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE DR KENNETH KAUNDA DISTRICT MUNICIPALITY

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the consolidated and separate financial statements of the Dr. Kenneth Kaunda District Municipality set out on pages 109 to 185, which comprise the consolidated and separate statement of financial position as at 30 June 2012, the consolidated and separate statements of financial performance, changes in net assets and the cash flow statements for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion on the consolidated financial statements

Expenditure

6. I was unable to obtain sufficient appropriate audit evidence to confirm the occurrence, accuracy, classification, cut-off and completeness of project expenditure of R6 260 737 paid by the Dr. Kenneth Kaunda District Economic Development Agency due to a theft of documents during the year. I was unable to confirm the transactions by alternative means. Consequently I was unable to determine whether any adjustments to grants and subsidies paid of R59 384 081 as disclosed in the consolidated and separate statement of financial performance were necessary.

Opinion on the consolidated financial statements

7. In my opinion, except for the effect of the matter described in the basis for qualified opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Dr. Kenneth Kaunda District Municipality and its entity as at 30 June 2012 and their financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and the DoRA.

Opinion on the separate financial statements

8. In my opinion the separate financial statements present fairly, in all material respects, the financial position of the Dr. Kenneth Kaunda District Municipality as at 30 June 2012 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and the DoRA.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters

Irregular and fruitless and wasteful expenditure

10. As disclose in note 42 to the consolidated and separate financial statements, irregular expenditure of R5 141 436 (2011: R27 273 184) was incurred in the current year as proper supply chain management procedures had not been followed in the procurement of goods and services.
11. As disclose in note 41 to the consolidated and separate financial statements, fruitless and wasteful expenditure of R3 373 864 (2010: R3 335 205) was not investigated by Council.

Restatement of corresponding figure

12. As disclose in note 38 to the consolidated and separate financial statements, loans paid on behalf of the Tlokwe City Council in prior years, have been restated as grants and subsidies paid to the Tlokwe City Council.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the information on predetermined objectives as set out on pages 35 to 95 of the annual report.
15. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are

measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information (FMPPI).

16. The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
17. The material findings are as follows:

Usefulness of information

18. Improvement measures for a total of 57% of the planned targets not achieved were not disclosed in the annual performance report as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.
19. Section 46 of the MSA requires the disclosure of measures taken to improve performance, in the annual performance report where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 32% of measures taken to improve performance, as disclosed in the annual performance report. The municipality records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity of the measures taken to improve performance.
20. Section 41(c) of the MSA requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 23% of the reported indicators and targets are not consistent with the indicators and targets as per the approved integrated development plan. This is due to the lack of inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.
21. The FMPPI requires that performance indicators be well defined and verifiable and targets be specific, measureable and time bound:
 - A total of 39% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently.
 - A total of 52% of the targets were not time bound in specifying a time period or deadline for delivery.

This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information as well as the fact that management was not aware of the requirements of the FMPPI and did not receive the necessary training to enable application of the principles.

Reliability of information

22. The FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. The municipality could not provide sufficient appropriate evidence to support 52% of the actual reported performance of KPA1: Municipal financial viability and management, KPA2: Basic service delivery and infrastructure development and KPA5: Economic research activities. The institution's records did not permit the application of alternative audit procedures. Consequently, I was unable to obtain sufficient, appropriate audit evidence to satisfy myself as to the validity, accuracy and completeness of the actual performance reported in the annual performance report.

Additional matter

23. I draw attention to the matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

24. Of the total number of 168 planned targets, 79 were not achieved during the year under review. This represents 47% of the total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

Compliance with laws and regulations

25. I performed procedures to obtain evidence that the Dr. Kenneth Kaunda District Municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Annual financial statements, performance and annual reports

26. The separate financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements relating to disclosure notes were identified by the auditors which were adequately corrected, resulting in the separate financial statements receiving an unqualified audit opinion.

Human resource management

27. The district municipality did not comply with sec 54A(2A)(a) and 56(1)(c) of the MSA which requires that the acting period of the municipal manager and senior managers be limited to a maximum period of 3 months, which may only be extended for a period that does not exceed another three months, if approved by the MEC: Local Government in the Province.

Expenditure management

28. The accounting officer did not take effective steps to prevent irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

29. Awards were made to providers whose directors/ principal shareholders are persons in the service of other state institutions in contravention of the requirements of regulation 44 of the Supply Chain Management Regulations. Furthermore these providers failed to declare that he/she is in the service of the state as required by regulation 13(c) of the Supply Chain Management Regulations.
30. Sufficient appropriate audit evidence could not be obtained to confirm if goods and services with a transaction value above R200 000 were procured by means of inviting competitive bids and that deviations approved by the accounting officer were only if it was impractical to invite competitive bids, as required by regulations 19(a) and 36(1) of the Supply Chain Management Regulations.

Internal control

31. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

32. The finance, supply chain management and human resources departments are understaffed, which resulted in matters relating to non-compliance to supply chain management regulations and predetermined objectives, being reported.

Financial and performance management

33. Internal controls to monitor compliance with laws and regulations relating to supply chain management and predetermined objectives have not been effectively applied, resulting in the reoccurrence of findings in this regard.

Governance

34. Governance structures did not appropriately address the internal control deficiencies relating to the matters reported in the prior year, resulting in the reoccurrence of findings.

Auditor General

Rustenburg

20 December 2012



AUDITOR - GENERAL
SOUTH AFRICA

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